

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 NSC-05
SS-15 STR-04 CEA-01 /105 W
-----041843Z 069490 /65

R 041732Z JAN 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4403
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY
3)

1. GERMAN INDUSTRIAL PRODUCTION DECLINES:
ACCORDING TO PRELIMINARY INFORMATION, THE INDEX OF
GERMAN INDUSTRIAL PRODUCTION DECLINED BY ONE PERCENTAGE
POINT DURING NOVEMBER TO 112. THE OCTOBER FIGURE ALSO
WAS REVISED DOWNWARD FROM 114 TO A NEW 113.

2. FOREIGN EXCHANGE MARKETS:
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RENEWED PRESSURE ON THE DOLLAR HAS PUSHED THE DOLLAR/
DEUTSCHEMARK EXCHANGE RATE DOWN TO NEAR \$1DM 2.34 IN
THE OPENING DAYS OF TRADING IN 1977 ON GERMAN FOREIGN
EXCHANGE MARKETS DESPITE REPORTED BUNDESBANK PURCHASES
OF \$23 MILLION IN PAST SEVEN DAYS. DAILY FRANKFURT SPOT
AND FORWARD DOLLAR RATES DURING THE REPORTING PERIOD
WERE AS FOLLOWS:

FORWARD DOLLARS

SPOT DOLLARS (IN PCT. PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MOS

DEC. 27	2.3660	2.3665	2.3620	0.35	-0.12
28	2.3580	2.3565	2.3545	0.10	-0.12
29	2.3575	2.3621	2.3575	0.10	-0.17
30	2.3555	2.3582	2.3565	0.25	-0.42
31	2.3600	2.3625	2.3615	-0.20	-0.36
JAN. 3	2.3530	2.3492	2.3460	-0.26	-0.43
4	2.3410	2.3403	N.A.	N.A.	N.A.

3. MONEY MARKET:

RATES ON GERMAN MONEY MARKET INCREASED SLIGHTLY FOR ONE AND THREE MONTH FUNDS. CALL MONEY RATES MOVED ERRATICALLY AT THE YEAR-END AS BANKS AND FIRMS JOCKEYED TO ADJUST THEIR POSITIONS AND CURRENTLY REMAIN TIGHT EQUALLING OR SLIGHTLY ABOVE THE LOMBARD RATE. FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS DURING THE REPORTING PERIOD:

CALL MONEY ONE-MONTH THREE-MONTH

DEC. 27	5.0-5.5	5.00	4.90
28	4.7-5.2	5.10	5.00
29	4.5-4.8	5.10	5.00
30	4.5-4.7	5.10	5.00
31	9.5	5.10	5.00

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JAN. 3 4.5-4.7 5.10 5.00

4. BUNDESBANK FOREIGN POSITION:

IN THE PERIOD DECEMBER 16-23 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.1 BILLION TO DM 92.7 BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 93 MILLION WHILE GERMANY'S IMF GOLD TRANCHE POSITION DECLINED BY DM 25 MILLION. CREDITS TO MONETARY AUTHORITIES OTHER THAN EUROPEAN MONETARY FUND ROSE BY DM 14 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 180 MILLION.

5. BANK LIQUIDITY:

IN THE SAME PERIOD BANK LIQUIDITY DECLINED SUBSTANTIALLY BY DM 6.1 BILLION. THE BASIC FACTOR REDUCING LIQUIDITY WAS A DM 4.3 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK BASICALLY REFLECTING PAYMENTS FOR THE MAJOR MID- DECEMBER TAX DATE. OTHER FACTORS ABSORBING LIQUIDITY WERE

A DM 0.4 BILLION INCREASE IN THE BANKS' HOLDINGS OF
RESERVES AT THE BUNDESBANK, THE ABOVE MENTIONED DE-
CLINE IN THE BUNDESBANK'S FOREIGN POSITION, AND OTHER

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NON-SPECIFIED FACTORS (DM 2.0 BILLION, NET). MAJOR
FACTORS INCREASING LIQUIDITY WERE A DM 0.5 BILLION
DECLINE IN CURRENCY IN CIRCULATION AND DM 0.2 BILLION
OF RETURNS OF MONEY MARKET PAPER TO THE BUNDESBANK.
THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING
LOMBARD BORROWINGS BY DM 6.4 BILLION TO THE RECORD LEVEL
OF DM 12.6 BILLION. AT THE SAME TIME BANKS REDUCED
REDISCOUNT BORROWINGS BY DM 0.3 BILLION.

6. MONEY SUPPLY:
IN NOVEMBER, MONETARY EXPANSION (MEASURED BY M1, M2
AND M3) WAS, ON A SEASONALLY ADJUSTED BASIS, SUBSTANTI-

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ALLY SLOWER THAN IN NOVEMBER, ALTHOUGH IT CONTINUED TO INCREASE ON A SEASONALLY NON-ADJUSTED BASIS. INDIVIDUAL MONETARY AGGREGATES DEVELOPED AS FOLLOWS (CHANGES IN BILLION DM; SEASONALLY ADJUSTED).

LST Q 2ND Q 3RD Q OCT. NOV.

(MONTHLY AVERAGES)

M1	0.3	2.7	0.4	2.6	0.3
M2	-0.1	3.2	2.0	7.3	0.6
M3	2.4	4.5	4.6	9.2	2.1

AS IN OCTOBER THE BASIC EXPANSIONARY FACTOR IN NOVEMBER WAS A CONSIDERABLE INCREASE IN BANK CREDITS GRANTED TO THE NON-BANK SECTOR OF THE ECONOMY. HOWEVER, COMPARED WITH OCTOBER CREDITS TO THE PRIVATE SECTOR DECLINED SOMEWHAT WHILE CREDITS TO PUBLIC AUTHORITIES GREW CONSIDERABLY. SINCE PUBLIC AUTHORITIES AT THE SAME TIME REDUCED THEIR ASSETS HELD AT THE CENTRAL BANK, OFFICIAL TRANSACTIONS WERE THE MAJOR EXPANSIONARY FACTOR IN NOVEMBER. THE INDIVIDUAL COMPONENTS AND DETERMINANTS OF THE MONEY SUPPLY IN NOVEMBER DEVELOPED AS FOLLOWS (SEASONALLY NON-ADJUSTED; CHANGES IN BILLION OF DM):

	NOVEMBER	OCTOBER
	1976	1975 1976

I. LENDING TO DOMESTIC

NON-BANKS	11.0	14.1	6.0
FROM BUNDESBANK	-2.5	0.1	-1.1
FROM COMMERCIAL BANKS	13.5	14.0	7.0
TO PUBLIC SECTOR	6.6	5.8	-0.4
TO PRIVATE SECTOR	6.9	8.2	7.5

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II. NET EXTERNAL POSITION OF

BUNDESBANK AND COMMERCIAL			
BANKS	0.7	3.3	2.4

 III. LONG-TERM BANK DEPOSITS
 AND OUTSTANDING BANK

BONDS (1) 3.9 3.6 3.3

IV. OFFICIAL ASSETS HELD AT

CENTRAL BANK -3.7 -1.9 -7.2

V. OTHER -0.6 1.2 2.6

VI. M3 (2) (EQUALS I PLUS II

MINUS III MINUS IV

MINUS V) 12.1 14.5 9.7

VII. M2 (M3 MINUS SAVINGS

DEPOSITS) 11.3 12.4 8.3

VIII. M1 (M2 MINUS TIME DE-

POSITS) 12.8 14.2 1.3

(1) EXCLUDING SIGHT DEPOSITS, TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS, SAVINGS DEPOSITS WITH 3-MONTH PERIOD OF NOTICE, AND BONDS HELD BY BANKS.

(2) CURRENCY IN CIRCULATION, SIGHT DEPOSITS, TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS AND SAVINGS DEPOSITS WITH 3-MONTH PERIOD OF NOTICE.

7. CAPITAL MARKETS:

GERMAN STOCK AND BOND MARKETS BEGAN THE NEW YEAR WITH CONSIDERABLE PRICE INCREASES. ON JANUARY 3 GERMAN

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STOCK PRICES ROSE BY ABOUT 1 PERCENT OVER THE YEAR END LEVEL AND BOND PRICES ALSO INCREASED CONSIDERABLY. FEDERAL GOVERNMENT BONDS REPORTEDLY ROSE BY UP TO 0.45 POINTS. OBSERVERS EXPLAIN THE SURPRISINGLY GOOD CONDITIONS BY THE FACT THAT BANKS (WHICH DO BROKERAGE BUSINESS IN GERMANY) HAD ONLY LOW SECURITY RESERVES FOR TRADING PURPOSES AT THE YEAR-END AND THEREFORE THEY HAD TO INVEST IN STOCKS AND BONDS IN ORDER TO RE-ESTABLISH RESERVES. HOWEVER, THERE WERE ALSO REPORTS OF SUBSTANTIAL ORDERS FROM BANK CUSTOMERS INCLUDING DOMESTIC INSTITUTIONAL AND FOREIGN INVESTORS. ON THE MARKET FOR FOREIGN DM BONDS THE CANADIAN PROVINCE OF

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QUEBEC WILL OFFER A DM 100 MILLION LOAN CARRYING A COUPON OF 7 1/2 PERCENT AND A MATURITY OF 10 YEARS. THE ISSUE PRICE HAS NOT YET BEEN DECIDED.

8. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES

SEPTEMBER OCTOBER

BUILDING PERMITS FOR		
HOUSING UNITS	29,746	28,386
(PERCENTAGE CHANGE		
FROM 1975 LEVELS) (MINUS 11.0)		(MINUS 19.6)
INSOLVENCIES	805	881
(PERCENTAGE CHANGE		
FROM 1975 LEVELS) (13.4)		(2.9)

THE PACE OF CONSUMER PRICES APPEARS TO HAVE REACCELERATED AT YEAR'S END. ACCORDING TO FIRST ESTIMATES OF THE FEDERAL STATISTICAL OFFICE, LIVING COSTS IN DECEMBER 1976 EXCEEDED COMPARABLE 1975 LEVELS BY 3.8-3.9 PERCENT; DURING THE PERIOD SEPTEMBER THROUGH NOVEMBER, THE YEAR-TO-YEAR RATE OF INCREASE HAD DROPPED

FROM 4.0 PERCENT TO 3.7 PERCENT.
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